

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Township of Armada</u>	County <u>Macomb</u>
Audit Date <u>March 31, 2004</u>	Opinion Date <u>July 6, 2004</u>	Date Accountant Report Submitted To State: <u>July 12, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address <u>10 S. Main Street, Suite 200</u>	City <u>Mount Clemens</u>	State <u>MI</u>	ZIP <u>48043</u>
Accountant Signature 			

# **Township of Armada Macomb County, Michigan**

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**Financial Report  
with Additional Information  
March 31, 2004**

# Township of Armada

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## Independent Auditor's Report

To the Board of Trustees  
Township of Armada  
Macomb County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Armada as of March 31, 2004 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the management of the Township of Armada. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Armada as of March 31, 2004 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

July 6, 2004

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# Township of Armada

## Combined Balance Sheet All Fund Types and Account Group March 31, 2004

	Governmental Fund Types		Fiduciary Fund Types	Account Group	Totals (Memorandum Only)
	General	Special Revenue	Agency	General Fixed Assets	Primary Government
<b>Assets</b>					
Cash and cash equivalents (Note 2)	\$ 581,861	\$ 537,364	\$ 618,087	\$ -	\$ 1,737,312
Investments (Note 2)	345,027	25,778	-	-	370,805
Due from other funds (Note 3)	195,264	197,573	15,212	-	408,049
Due from other governmental units	13,988	35,995	11,709	-	61,692
Accounts receivable - Net of allowance for doubtful accounts of \$25,535	97	40,427	-	-	40,524
Prepaid expenditures	26,321	14,992	-	-	41,313
Land, buildings, and equipment (Note 4)	-	-	-	2,531,080	2,531,080
Total assets	<u>\$1,162,558</u>	<u>\$ 852,129</u>	<u>\$ 645,008</u>	<u>\$2,531,080</u>	<u>\$ 5,190,775</u>
<b>Liabilities and Fund Equity</b>					
<b>Liabilities</b>					
Accounts payable	\$ 6,508	\$ 14,802	\$ 199,779	\$ -	\$ 221,089
Accrued liabilities	11,698	36,238	-	-	47,936
Due to other funds	180,969	183,086	43,994	-	408,049
Due to other governmental units	-	-	401,235	-	401,235
Total liabilities	199,175	234,126	645,008	-	1,078,309
<b>Fund Equity</b>					
Investment in general fixed assets	-	-	-	2,531,080	2,531,080
Fund balances:					
Reserved for prepaids	26,321	14,992	-	-	41,313
Unreserved:					
Designated for subsequent year's budget	177,040	19,800	-	-	196,840
Undesignated	760,022	583,211	-	-	1,343,233
Total fund equity	963,383	618,003	-	2,531,080	4,112,466
Total liabilities and fund equity	<u>\$1,162,558</u>	<u>\$ 852,129</u>	<u>\$ 645,008</u>	<u>\$2,531,080</u>	<u>\$ 5,190,775</u>

# Township of Armada

## Combined Statement of Revenue, Expenditures, and Changes in Fund Balances All Governmental Fund Types Year Ended March 31, 2004

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	Primary Government
<b>Revenue</b>			
Property taxes	\$ 148,101	\$ 257,993	\$ 406,094
Licenses, permits, and fees	36,302	-	36,302
Intergovernmental:			
Federal sources	21,818	6,624	28,442
State sources	284,054	-	284,054
Charges for services	-	164,196	164,196
Fines and forfeitures	200	-	200
Interest	21,782	7,973	29,755
Other revenue	59,784	18,888	78,672
Total revenue	572,041	455,674	1,027,715
<b>Expenditures</b>			
General government, finance, and administration	280,541	-	280,541
Public safety	80,129	341,392	421,521
Public works	47,183	-	47,183
Health and welfare	31,492	-	31,492
Recreation and cultural	17,055	-	17,055
Capital outlay	37,997	265,463	303,460
Total expenditures	494,397	606,855	1,101,252
<b>Excess of Revenue Over (Under) Expenditures</b>	77,644	(151,181)	(73,537)
<b>Fund Balances - April 1, 2003</b>	885,739	769,184	1,654,923
<b>Fund Balances - March 31, 2004</b>	<u>\$ 963,383</u>	<u>\$ 618,003</u>	<u>\$ 1,581,386</u>

# Township of Armada

General Fund			
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>			
Property taxes	\$ 125,000	\$ 148,101	\$ 23,101
Licenses, permits, and fees	51,000	36,302	(14,698)
Intergovernmental:			
Federal sources	78,959	21,818	(57,141)
State sources	251,735	284,054	32,319
Charges for services	-	-	-
Fines and forfeitures	2,500	200	(2,300)
Interest	3,000	21,782	18,782
Other revenue	67,301	59,784	(7,517)
Total revenue	579,495	572,041	(7,454)
<b>Expenditures</b>			
General government	323,721	280,541	43,180
Public safety	123,757	80,129	43,628
Public works	56,886	47,183	9,703
Health and welfare	57,888	31,492	26,396
Recreation and cultural	24,150	17,055	7,095
Capital outlay	84,000	37,997	46,003
Total expenditures	670,402	494,397	176,005
<b>Excess of Revenue Over (Under) Expenditures</b>	(90,907)	77,644	168,551
<b>Fund Balances - April 1, 2003</b>	885,739	885,739	-
<b>Fund Balances - March 31, 2004</b>	<u>\$ 794,832</u>	<u>\$ 963,383</u>	<u>\$ 168,551</u>

**Combined Statement of Revenue, Expenditures, and  
Changes in Fund Balances - Budget and Actual  
General and Special Revenue Fund Types  
Year Ended March 31, 2004**

Special Revenue Funds		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 258,750	\$ 257,993	\$ (757)
-	-	-
13,541	6,624	(6,917)
-	-	-
127,000	164,196	37,196
-	-	-
3,000	7,973	4,973
6,300	18,888	12,588
408,591	455,674	47,083
-	-	-
336,828	341,392	(4,564)
-	-	-
-	-	-
-	-	-
211,213	265,463	(54,250)
548,041	606,855	(58,814)
(139,450)	(151,181)	(11,731)
769,184	769,184	-
<b>\$ 629,734</b>	<b>\$ 618,003</b>	<b>\$ (11,731)</b>



### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Township of Armada (the "Township") conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies:

#### **Reporting Entity**

The Township is governed by an elected Board of Trustees. There are no component units to be included in these financial statements as defined by generally accepted accounting principles.

#### **Fund Accounting**

The accounts of the Township are organized on the basis of funds and an account group, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

#### **Governmental Funds**

**General Fund** - The General Fund contains the records of the ordinary activities of the Township that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

#### **Fiduciary Funds**

**Agency Funds** - Agency Funds are used to account for assets held by the Township as an agent for individuals, organizations, other governments, or other funds. These include the Tax Collection, Library, and Bond Deposit Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Basis of Accounting

The governmental funds and the Agency Funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations of the Township are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31. The related property taxes are billed on December 1 of the following year and become a lien at that time. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

- b. Payments for inventorable types of supplies are recorded as expenditures at the time of purchase.
- c. Normally, expenditures are not divided between years by the recording of prepaid expenditures. Prepaid expenditures reported on the balance sheet represent advance payments for expenses related to the following year.

**Fixed Assets** - Fixed assets used in governmental fund-type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

The General Fixed Assets Account Group is not a fund and does not involve the measurement of results of operations.

**Memorandum-only Totals** - The total data presented is the aggregate of the fund types and account group and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

# Township of Armada

## Notes to Financial Statements March 31, 2004

### Note 2 - Deposits and Investments

The Township's deposits and investments are included on the balance sheet under the following classifications:

Cash and cash equivalents	\$ 1,737,312
Investments	<u>370,805</u>
Total	<u><u>\$ 2,108,117</u></u>

The above amounts are classified by Governmental Accounting Standards Board Statement No. 3 in the following categories:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 2,082,316
Investments - Bank investment pools	25,776
Petty cash or cash on hand	<u>25</u>
Total	<u><u>\$ 2,108,117</u></u>

#### Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$2,100,000. Of that amount, approximately \$409,000 was covered by federal depository insurance and approximately \$1,691,000 was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Investments

The Township is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

# Township of Armada

## Notes to Financial Statements March 31, 2004

### Note 2 - Deposits and Investments (Continued)

Investments are normally categorized to give an indication of the level of risk assumed by the Township. The Township's investments at year end consist of bank investment pools that are not categorized by level or risk because they are not evidenced by securities that exist in physical or book-entry form. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pools is the same as the value of the pool shares. Management believes that the investments in the pools comply with the investment authority noted above.

### Note 3 - Interfund Receivables

The following are the interfund receivables at March 31, 2004:

General Fund - Due from Tax Collection Fund	\$ 12,178
General Fund - Due from Fire Fund	183,086
Special Revenue Fund - Capital Improvement Fund - Due from General Fund	179,517
Special Revenue Fund - Fire Fund - Due from Tax Collection Fund	18,056
Agency Fund - Library Fund - Due from Tax Collection Fund	13,760
Agency Fund - Bond Deposit Fund - Due from General Fund	<u>1,452</u>
Total interfund receivables	<u>\$ 408,049</u>

### Note 4 - Land, Buildings, and Equipment

A summary of changes in general fixed assets follows:

	Balance April 1, 2003	Additions	Deletions	Balance March 31, 2004
Land and land improvements	\$ 480,781	\$ 10,861	\$ -	\$ 491,642
Buildings and building improvements	502,027	21,712	-	523,739
Vehicles and equipment	1,149,909	263,463	-	1,413,372
Furniture and fixtures	<u>96,902</u>	<u>5,425</u>	<u>-</u>	<u>102,327</u>
Total	<u>\$ 2,229,619</u>	<u>\$ 301,461</u>	<u>\$ -</u>	<u>\$ 2,531,080</u>

# Township of Armada

## Notes to Financial Statements March 31, 2004

### Note 5 - Budget Information

The annual budget is prepared by the Township's management and adopted by the Township Board; subsequent amendments are approved by the Township Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

The budget is adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget as adopted by the Township Board is included in the general purpose financial statements. A comparison of the actual results of operations to the Special Revenue Funds budgets as adopted by the Township Board is available at the Township offices for inspection.

**State Construction Code Act** - The Township tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the Township is required to maintain an accounting system that separately accumulates revenues and expenditures related to the building department function. As required under the provision of the Act, the Township adopted this accounting treatment effective January 1, 2000. The results of building department operations for the year ended March 31, 2004 are as follows:

Accumulated revenue over expenditures - April 1, 2003	\$ (2,948)
2003-2004 Building Department activity:	
Current year revenues	\$ 36,302
Current year expenditures	<u>44,853</u>
Excess of expenditures over revenue	<u>(8,551)</u>
Accumulated expenditures over revenue - March 31, 2004	<u><u>\$ (11,499)</u></u>

### **Note 6 - Risk Management**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance either directly or through the Michigan Township Participating Plan for all such risks. Settled claims relating to insurance plans have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### **Note 7 - Upcoming Reporting Change**

For the year beginning April 1, 2004, the Township plans to adopt Governmental Accounting Standards Board (GASB) Statement No. 34. This will dramatically revise the information being reported in these financial statements. Governmental activities will report information by individually significant fund, as well as in total on the full accrual basis of accounting. Information is not available to present pro forma data that would show the effect of this future change.

## **Additional Information**

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To the Board of Trustees  
Township of Armada  
Macomb County, Michigan

We have audited the general purpose financial statements of the Township of Armada for the year ended March 31, 2004. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the Township of Armada. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Plante & Moran, PLLC*

July 6, 2004



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# Township of Armada

## General Fund Schedule of Expenditures - Budget and Actual Year Ended March 31, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
<b>General Government</b>			
Supervisor	\$ 28,236	\$ 26,365	\$ 1,871
Elections	5,450	1,042	4,408
Assessor	37,730	35,032	2,698
Attorney	36,000	25,118	10,882
Clerk	36,736	32,646	4,090
Board of Review	3,536	1,354	2,182
Treasurer	31,673	29,146	2,527
Cemetery	5,000	2,450	2,550
Building, grounds, and maintenance	29,100	21,280	7,820
Engineering	35,000	39,474	(4,474)
General	75,260	66,634	8,626
Total general government	323,721	280,541	43,180
<b>Public Safety</b>			
Code Enforcer	2,580	682	1,898
Zoning	3,080	1,055	2,025
Inspections	68,812	44,853	23,959
Planning	49,285	33,539	15,746
Total public safety	123,757	80,129	43,628
<b>Public Works</b>			
Highways and streets	33,855	30,213	3,642
Sanitation	23,031	16,970	6,061
Total public works	56,886	47,183	9,703
<b>Health and Welfare</b>			
SMART	22,929	12,615	10,314
Community development block grant	34,959	18,877	16,082
Total health and welfare	57,888	31,492	26,396
<b>Recreation and Cultural</b>			
Parks	12,200	5,376	6,824
Senior center recreation	11,950	11,679	271
Total recreation and cultural	24,150	17,055	7,095
<b>Capital Outlay</b>	84,000	37,997	46,003
Total expenditures	<u>\$ 670,402</u>	<u>\$ 494,397</u>	<u>\$ 176,005</u>

# Township of Armada

## Special Revenue Funds Combining Balance Sheet March 31, 2004

	Fire Fund	Improvement Revolving Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 501,374	\$ 35,990	\$ 537,364
Investments	-	25,778	25,778
Due from other governmental units	35,995	-	35,995
Accounts receivable	40,427	-	40,427
Due from other funds	18,056	179,517	197,573
Prepaid expenditures	14,992	-	14,992
Total assets	<u>\$ 610,844</u>	<u>\$ 241,285</u>	<u>\$ 852,129</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 14,802	\$ -	\$ 14,802
Due to other funds	183,086	-	183,086
Other liabilities	36,238	-	36,238
Total liabilities	234,126	-	234,126
<b>Fund Balances</b>			
Reserved	14,992	-	14,992
Unreserved:			
Designated for subsequent year's budget	19,800	-	19,800
Undesignated	341,926	241,285	583,211
Total fund balances	<u>376,718</u>	<u>241,285</u>	<u>618,003</u>
Total liabilities and fund balances	<u>\$ 610,844</u>	<u>\$ 241,285</u>	<u>\$ 852,129</u>

# Township of Armada

## Special Revenue Funds Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2004

	Fire Fund	Improvement Revolving Fund	Total
<b>Revenue</b>			
Property taxes	\$ 257,993	\$ -	\$ 257,993
Charges for services	164,196	-	164,196
Federal grants	6,624	-	6,624
Interest	6,808	1,165	7,973
Other	18,888	-	18,888
	<hr/>	<hr/>	<hr/>
Total revenue	454,509	1,165	455,674
<b>Expenditures</b>			
Public safety	341,392	-	341,392
Capital outlay	265,463	-	265,463
	<hr/>	<hr/>	<hr/>
Total expenditures	606,855	-	606,855
<b>Excess of Revenue Over (Under) Expenditures</b>	(152,346)	1,165	(151,181)
<b>Fund Balances - April 1, 2003</b>	<hr/> 529,064	<hr/> 240,120	<hr/> 769,184
<b>Fund Balances - March 31, 2004</b>	<u><u>\$ 376,718</u></u>	<u><u>\$ 241,285</u></u>	<u><u>\$ 618,003</u></u>

# Township of Armada

## Fiduciary Funds - Combining Balance Sheet March 31, 2004

	Bond Deposit	Library	Tax Collection	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 198,327	\$ 239,443	\$ 180,317	\$ 618,087
Due from other funds	1,452	13,760	-	15,212
Due from other governmental units	-	11,709	-	11,709
Total assets	<u>\$ 199,779</u>	<u>\$ 264,912</u>	<u>\$ 180,317</u>	<u>\$ 645,008</u>
<b>Liabilities</b>				
Accounts payable	\$ 199,779	\$ -	\$ -	\$ 199,779
Due to other funds	-	-	43,994	43,994
Due to other governmental units	-	264,912	136,323	401,235
Total liabilities	<u>\$ 199,779</u>	<u>\$ 264,912</u>	<u>\$ 180,317</u>	<u>\$ 645,008</u>



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July 14, 2004

Board of Trustees  
Township of Armada  
23121 East Main Street  
Armada, MI 48005

Dear Board Members:

We recently completed our audit of the financial statements of the Township of Armada for the year ended March 31, 2004. In addition to the audit report, we offer the following comments and recommendations for your review and consideration:

### **Accounting Function**

After the upcoming election, the Township will have a new Clerk. As you are aware, the current Township Clerk is responsible for the accounting aspects of recording cash receipts and cash disbursements into the Quick Books accounting software. In addition, the Clerk reconciles certain general ledger accounts, posts journal entries, coordinates payroll and updates the budget in the general ledger. In connection with the year-end audit, Plante & Moran has worked with the Clerk to adjust necessary accrual balances to appropriate year-end amounts. We would consider many of the accounting related functions performed by the current Clerk to require a fairly high degree of general accounting aptitude. Based upon our experience as auditors for other communities, we believe that a strong possibility exists that the Township's future Clerk may not possess these same accounting attributes. As you are aware, accounting is just one of a number of areas of responsibility assigned to the Clerk. As such, an accounting background is not a necessary prerequisite for the position. However, the accounting function is the cornerstone of municipal finance budgeting and internal controls. We strongly recommend that the Township Board work with your current and future Clerk to develop a plan to ensure stability in the accounting function. It is likely that in order to achieve this objective, the Township will have to consider retaining outside accounting assistance. There are numerous accounting assistance options to consider and we would be happy to discuss them with the Board at our convenience.

### **Fee Schedule**

During our review of fees related to site-plan reviews, we noticed that the Township has established a practice of accepting deposits related to site-plan fees. After the completion of the process, actual costs related to the site-plan are summarized and an amount due or potential refund is calculated. The process of summarizing actual costs related to these reviews can be cumbersome at times. As a result, it can be time consuming and may not be performed on a

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regular periodic basis. We recommend that the Township consider a flat fee structure for all services to remove the time and effort necessary to calculate net refunds or amounts due.

### **New Financial Reporting Model**

As discussed in the previous year, the Governmental Accounting Standards Board issued a new pronouncement that will change the presentation of governmental financial statements. The expected benefits of the new model include improved comparability of financial statements between communities, and a better matching of the current year's revenue sources to the full cost of services provided during that year. Some of the changes in the model include the following:

- A "Management's Discussion and Analysis" section
- Entity-wide financial statements (balance sheet and operating statement) prepared on a full accrual basis
- Capital assets and their related depreciation will be reported

The Township is required to implement GASB 34 for its fiscal year ending March 31, 2005. In order to do this, the Township will need to restate its financial information as of March 31, 2004, so that it will be on the new basis of accounting as of the beginning of the Township's 2004-2005 fiscal year. It is likely that the adoption of the new reporting model will require several changes to the Township's financial systems, especially in the area of capital assets.

### **Revenue Sharing**

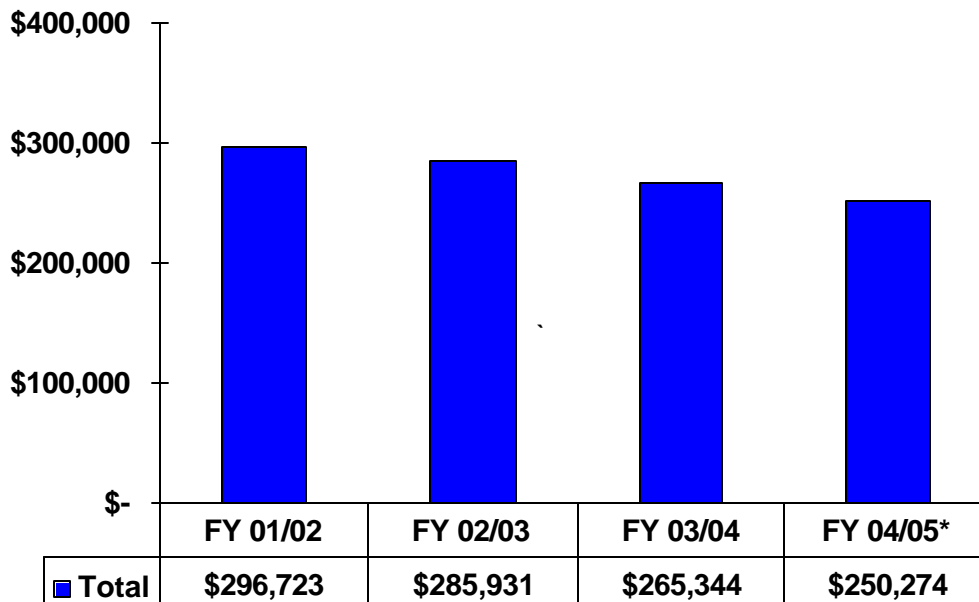
As you are aware, revenue sharing payments for the State's fiscal year ended September 30, 2003, were reduced by 3.5 percent through a December 2002 Executive Order. The budget for the State's fiscal year ending September 30, 2004, includes an *additional* 3 percent reduction in revenue sharing payments from the estimated payments for the State's 2003 fiscal year. These cuts are compounded by reductions that result when sales tax collections are less than what is included in the State's projections. In December 2003, the Governor issued an executive order reducing revenue sharing for the State's fiscal year ending September 30, 2004, an additional 5 percent.

In February 2004, the Governor introduced her budget for the State's fiscal year ended September 30, 2005. For cities, villages and townships, the Governor's budget proposal is to keep revenue sharing levels for the September 30, 2005, fiscal year end at the September 30, 2004, fiscal year end levels. However, the proposal eliminates statutory revenue sharing for counties. There is considerable discussion in Lansing about further reductions to state shared revenue from the Governor's budget proposal for fiscal year ended September 30, 2005.

We have attached a chart to provide you with more detail on what has occurred with revenue sharing relative to the Township of Armada. The chart demonstrates the impact that these cuts in revenue sharing by the State have had on the Township of Armada. For the Township, revenue sharing funding levels are \$46,449 less for the 2005 fiscal year as compared to fiscal year 2002.

We recommend that the Township continue to evaluate the impact of the revenue sharing reductions on the Township's 2004 budget. In addition, updated information can be obtained from the Department of Treasury's web site at <http://treas-secure.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at (517) 373-2697. We will continue to update the Township as developments occur.

### Total State Shared Revenue – Township of Armada



\$ Decrease		\$10,792	\$20,587	\$15,070
% Decrease		3.6%	7.2%	5.7%

\*Projected (Data Source for all State Fiscal Years Michigan Department of Treasury.)

### Protecting the Township from Fraud - Positive Pay Systems

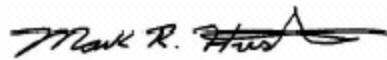
Due to the continued sophistication of devices such as scanners and color copiers, the risk of check fraud is growing. Annual losses due to check fraud in the U.S. are estimated to be beyond \$12 billion. With these devices, dishonest individuals can take a valid check, a canceled check, or a voided check and either duplicate or modify the check for fraudulent use. Making matters worse, where banks once protected their customers for this type of check fraud, sentiment is beginning to change, where ultimately it may be the customer's responsibility to cover fraudulent checks.

To combat this problem, many banks have introduced a tool called "positive pay", which verifies each check presented to the bank against a file of written checks that is electronically transmitted from the customer to the bank. Funds are not relieved from the customer's account unless the check matches the information transmitted or until the customer approves the check. The cost of this tool is very low. A side benefit is that it allows the bank to prepare an outstanding checklist as a by-product of this service.

We would like to thank the Board for the opportunity to serve as auditors for the Township. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in black ink, appearing to read "Mark R. Hurst", with a stylized flourish at the end.

Mark R. Hurst